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STATE OF LOUISIANA 22
LEGISLATIVE AUDITOR 9272

Louisiana Agricultural Finance Authority
Department of Agriculture and Forestry
State of Louisiana
Baton Rouge, Louisiana

November 20, 1998



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA,
Baton Rouge, Louisiana

General Purpose Financial Statements
and Independent Auditor's Report
As of and for the Year Ended June 30, 1998

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

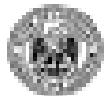
November 25, 1998

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA

General Purpose Financial Statements
and Independent Auditor's Report
As of and for the Year Ended June 30, 1990

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October 29, 1998

Independent Audit Report
20th Financial Statements

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 1998, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority as of June 30, 1998, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 29, 1998, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,

Daniel G. Ryan, CPA, CFE
Legislative Auditor

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**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Balance Sheet, June 30, 1988

ASSETS

Current assets:

Cash in bank (note 2)	\$198,426
Receivables (note 3)	158,740
Total current assets	<u>315,166</u>
Restricted assets - cash equivalents held by trustee (note 2)	<u>100</u>
Other assets:	
Unamortized bond issuance costs (note 9)	28,304
Capital leases receivable (note 10)	1,623,800
Property, plant, and equipment (net of accumulated depreciation) (note 5)	14,474,856
Total other assets	<u>16,304,960</u>
TOTAL ASSETS	<u><u>\$16,644,926</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:

Current liabilities:	
Accounts payable (note 4)	\$193,198
Accrued interest on bonds payable	17,558
Due to Department of Agriculture and Forestry	255,255
Bonds payable - current portion (note 6)	550,000
Total current liabilities	<u>1,016,411</u>
Deferred revenue:	
Bonds payable - long-term (note 6)	1,580,000
Total Liabilities	<u>2,471,411</u>
Fund Equity:	
Contributed capital (note 7)	12,515,921
Retained earnings - unreserved	1,255,125
Total Fund Equity	<u>14,173,046</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$16,644,926</u></u>

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
 DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and
 Changes in Retained Earnings
 For the Year Ended June 30, 1998

OPERATING REVENUES

Rental income	<u>\$1,000,350</u>
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OPERATING EXPENSES:

Professional services	115,354
Materials and supplies	42,104
Maintenance	672,871
Depreciation	526,524
Other purchased services (note 12)	200,875
Total operating expenses	<u>1,777,958</u>

OPERATING INCOME

NONOPERATING REVENUES (Expenses)

Capital outlay and maintenance expense for Department of Agriculture and Forestry	(84,378)
Capital outlay and maintenance reimbursements from Department of Agriculture and Forestry	84,378
Maintenance expense for state employees Group Benefits Program	(77,918)
Maintenance reimbursement for State Employees Group Benefits Program	77,918
Loss on disposal of equipment	(1,998)
Amortization of bond issuance costs (note 6)	(12,101)
Interest income	2,261
Amortization of interest from capital leases	259,368
Interest expense	(259,368)
Total nonoperating revenues (expenses)	<u>(11,358)</u>

NET INCOME

	<u>10,000</u>
--	---------------

OTHER FINANCING SOURCES

Less principal receipts	1,555,000
Sale of timber	10,875
Total other financing sources	<u>1,565,875</u>

RETAINED EARNINGS AT BEGINNING
OF YEAR (DEFERRED) (note 8)

	<u>(326,675)</u>
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RETAINED EARNINGS AT END OF YEAR

	<u>\$1,256,125</u>
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The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Year Ended June 30, 1990**

Cash flows from operating activities -	
operating income	820,700
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	5535,534
Increase in rental income receivables	(122,216)
Increase in accounts payable	2,958
Net cash provided by operating activities.	489,304
Cash flows from noncapital financing activities:	
Maintenance payments on behalf of Department of Agriculture and Forestry	(100,126)
Maintenance reimbursements from Department of Agriculture and Forestry	392,111
Maintenance payments on behalf of State Employees Group Benefits Program	(77,016)
Maintenance reimbursements from State Employees Group Benefits Program	16,008
Sale of timber	10,670
Net cash provided by noncapital financing activities	241,145
Cash flows from capital and related financing activities:	
Loan from Department of Agriculture and Forestry	250,256
Transfers from Department of Agriculture and Forestry	123,661
Capital lease receivable receipts	2,330,500
Capital outlay	(1,833,748)
Principal paid on bond maturation	(2,570,000)
Interest paid on bonds	1264,947
Net cash provided by capital and related financing activities	(65,241)
Cash flows from investing activities - interest on investments	2,263
Net increase in cash and cash equivalents	108,242
Cash and cash equivalents at beginning of year	51,352
Cash and cash equivalents at end of year	159,594

The accompanying notes are an integral part of this statement.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**

**Note to the Financial Statements
As of and for the Year Ended June 30, 1998**

INTRODUCTION

The Louisiana Agricultural Finance Authority (authority) was created under the provisions of Louisiana Revised Statute (L.S.) 3:261-264, within the Department of Agriculture and Forestry, State of Louisiana, and is situated in East Baton Rouge Parish. The authority consists of five members, one of whom is the Commissioner of the Department of Agriculture and Forestry and four members appointed by the governor. The members may receive a per diem not to exceed \$48 per meeting, plus mileage expenses. The authority has no employees. The administrative and accounting functions of the authority are performed by employees of the Department of Agriculture and Forestry.

The authority was established to issue bonds to provide financing for agricultural loans, through the purchase or guarantee of existing loans or negotiation of new loans, and the establishment of reserves for bond issues. The bonds are limited special obligations of the Louisiana Agricultural Finance Authority and do not constitute a general, special, or moral obligation of the State of Louisiana. In addition, the authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building for use by the Department of Agriculture and Forestry and for the purpose of completing construction of an agricultural chemistry laboratory building on the campus of Louisiana State University and A&M College. The revenue bonds are limited obligations of the Louisiana Agricultural Finance Authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:263 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The authority is considered a component unit of the State of Louisiana because the state exercises oversight responsibility and has accountability for fiscal matters because the board of directors is appointed by the governor and upon dissolution of the authority, title to all property owned by the authority shall vest in the State of Louisiana. The accompanying financial statements present information only as to the transactions of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

B. BASIS OF PRESENTATION

The authority uses a proprietary fund (enterprise fund) to report on its financial position and results of its operations. The enterprise fund accounts for the activities relating to acquiring and constructing facilities to be used for the Department of Agriculture and Forestry, including, but not limited to, incurring and paying debt and administering leases agreements. The fund is operated in a manner similar to a private business enterprise where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

C. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for using a flow-of-economic-resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

D. CASH AND CASH EQUIVALENTS

Cash represents demand deposits held by the authority and the trustee. Cash equivalents held by the trustee represent funds in various trust accounts that have been invested in shares of a short-term money market fund. Under the terms of the trust agreements, monies held by the trustee shall be invested in permitted investments. Permitted investments include government obligations or tax-exempt bonds and time deposits that meet the specific security requirements of the trust agreements.

For purposes of the Statement of Cash Flows, the authority considers all highly liquid investments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

E. RESTRICTED ASSETS

Certain proceeds of the authority revenue bonds, as well as certain resources provided annually by the Department of Agriculture and Forestry, are set aside for the repayment of the revenue bonds. These assets are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

F. FIXED ASSETS AND LONG-TERM OBLIGATIONS

Fixed assets of the authority are reported on the balance sheet net of accumulated depreciation. All fixed assets are valued at their historical cost except for donated fixed assets, which are recorded at their estimated value at the time of donation. Buildings consist of the former Forestry Building that was donated to the authority by the Department of Agriculture and Forestry; an agricultural chemistry laboratory constructed by the authority; a warehouse constructed by the authority; and seed orchard buildings donated by Louisiana Pacific Corporation. The agricultural chemistry laboratory is located on the Baton Rouge campus of Louisiana State University and A&M College and is used jointly by the university and the Department of Agriculture and Forestry. Long-term obligations are recognized within the enterprise fund.

The authority is constructing a new forestry district office for the Department of Agriculture and Forestry in Hammond and a new hanger at the Woodworth airport.

Depreciation of all exhaustible fixed assets acquired or constructed through resources externally restricted for capital acquisitions is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	Years
Buildings	40
Equipment	5-10

G. DEFERRED REVENUE

The authority records that portion of capital lease receivables attributable to future years as deferred revenues.

H. FUND-EQUITY - CONTRIBUTED CAPITAL

Capital grants received from the Department of Agriculture and Forestry are restricted for the acquisition or construction of capital assets. The feed revenues and the timber revenues are assigned to the 1988 Bond issue for the Department of Agriculture and Forestry office building project. The pesticide registration fees and revenues are assigned to the 1990 Bond issue for the LSU Agricultural Chemistry Laboratory Project.

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

I. RENTAL INCOME

Rental income is derived from the lease of the former Forestry Building, the Department of Agriculture and Forestry Headquarters Building Complex, and the authority's warehouse. All rental payments are due monthly to the authority.

The Department of Public Safety, Office of State Fire Marshal, leases the former Forestry Building. The lease expires in the year 1999, with an option to renew.

The Department of Agriculture and Forestry leases office space in the Department of Agriculture and Forestry Headquarters Building. The lease expires in the year 2001. The department also leases storage space in the authority's warehouse. That lease expires in the year 2002.

The State Employees Group Benefits Program leases office space in the Department of Agriculture and Forestry Headquarters Building. The lease expires in the year 2000. The program also leases storage space in the authority's warehouse. That lease expires in the year 1998.

The Department of Civil Service leases office space in the Department of Agriculture and Forestry Headquarters Building. The lease expires in the year 1999.

The U.S. Department of Agriculture leases office space in the Department of Agriculture and Forestry Headquarters Building. The lease expires in the year 1999.

The Department of Revenue leases storage space in the authority's warehouse. The lease expires in the year 2000.

II. CASH AND CASH EQUIVALENTS

As reflected on Statement A, at June 30, 1998, the authority has cash in demand deposits totaling \$158,423 and cash equivalents held by the trustee totaling \$169. Cash equivalents are valued at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The authority has a deposit balance (deposited bank balance) of \$234,291 at June 30, 1998, for which the authority has control. This deposit is secured from risk by \$100,000 of Material deposit insurable (GAAS Risk Category 1) and \$134,291 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GAAS Risk Category 2).

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

2. RECEIVABLES

The authority's receivables are as follows:

Rental income	\$50,210
Maintenance refund	100
Capital outlay and maintenance reimbursements	
from Department of Agriculture and Forestry	30,630
Maintenance reimbursements from	
State Employees Group Benefits Program	81,700
Accrued interest income	1
 Balance at June 30, 1988	 <u>\$150,740</u>

4. PAYABLES

The authority's payables are as follows:

Professional services	\$16,185
Maintenance expense	47,850
Capital outlay	120,857
 Balance at June 30, 1988	 <u>\$184,892</u>

5. FIXED ASSETS

A summary of the authority's fixed assets at June 30, 1988, is presented as follows:

	<u>Land and Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost	\$1,483,360	\$8,782,328	\$2,719,129	\$111,284	\$10,094,891
Less accumulated depreciation					
Total	<u>\$1,483,360</u>	<u>\$8,782,328</u>	<u>\$2,719,129</u>	<u>\$111,284</u>	<u>\$10,094,891</u>

Construction in progress consists of a Forestry District Office in Hammond and a hanger in Woodworth. The projected costs of the projects are \$200,000 and \$250,000, respectively, with \$16,185 and \$164,311, respectively, having been expended through June 30, 1988. The balance of the projects will be funded with future rental income revenue. The projected date of completion for both projects is February 1, 1989.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

6. LONG-TERM OBLIGATIONS

On August 30, 1988, the authority sold \$6,000,000 of Revenue Bonds, Series 1988, to acquire, construct, renovate, and equip an office building for use by the Department of Agriculture and Forestry. The authority converted the remaining balance of \$4,100,000 of the variable rate bonds to fixed rate bonds dated May 1, 1992, with an interest rate of 8.5% payable semiannually the April 30 and October 30. The revenue bonds are secured by a pledge of the feed and the fertilizer resources, by the property acquired or constructed from the bond proceeds, and by future lease rental payments from the State of Louisiana as lessee of the aforementioned property. There are no bond reserve requirements per the supplemental trust indenture because of the pledge of the feed and the fertilizer resources. On May 1, 1992, the authority converted the remaining balance of \$1,440,000 of the bonds to an interest rate of 8.0%.

On July 1, 1992, the authority sold \$3,180,000 of Revenue Bonds, Series 1992, to complete construction of an agricultural chemistry laboratory on the Baton Rouge campus of Louisiana State University and A&M College. The bonds bear interest at 8.5% and are payable January 16 and July 16 of each year. The revenue bonds are secured by a pledge of pesticide registration fees and by future lease rental payments from the State of Louisiana as lessee of the aforementioned property. There are no bond reserve requirements per the trust indenture because of the pledge of pesticide registration fees.

On February 1, 1993, the authority exercised its right to redeem \$500,000 of the \$3,180,000 Revenue Bonds, Series 1992, before maturity. On September 1, 1993, the authority redeemed another \$500,000 of the \$3,180,000 Revenue Bonds, Series 1992, before maturity. On May 1, 1993, the authority redeemed \$1,250,000 of the \$3,180,000 Revenue Bonds, Series 1992, before maturity. According to the bonds' trust indentures, the bonds are subject to optional redemption, in whole or in part, at any time at a redemption price of 100% of the principal amount plus accrued interest to the redemption date. The Department of Agriculture and Forestry provided the funds for the authority to redeem the bonds. The authority's payment on February 1, 1993, totaled \$508,215, which included \$8,215 in accrued interest, and resulted in interest savings of \$115,525. The authority's payment on September 1, 1993, totaled \$516,524, which included \$16,524 in accrued interest, and resulted in interest savings of \$164,875. The authority's payment on May 1, 1993, totaled \$1,273,472, which included \$23,472 in accrued interest, resulted in interest savings of \$117,303.

The following is a summary of changes in bonds payable, current and long-term, for the year ended June 30, 1993:

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
 DEPARTMENT OF AGRICULTURE AND FORESTRY
 STATE OF LOUISIANA
 Notes to the Financial Statements (Continued)

Bonds payable as of June 30, 1997	\$3,716,000
Additions:	
Retirements of principal on debt	<u>(2,075,000)</u>
Bonds payable as of June 30, 1998	<u>\$1,641,000</u>

The annual requirements to amortize \$1,641,000 of revenue bonds outstanding at June 30, 1998, including interest of \$463,500, are as follows:

Fiscal year:	
1999	5435,000
2000	447,500
2001	329,000
2002	<u>213,000</u>
Total	<u>\$1,623,500</u>

7. CONTRIBUTED CAPITAL

The following is a summary of changes in contributed capital for the year ended June 30, 1998:

Contributed capital as June 30, 1997	\$9,736,300
Additions:	
Capital outlay program	123,591
Donations	<u>3,018,894</u>
Contributed capital as June 30, 1998	<u>\$12,918,891</u>

8. ADJUSTMENTS TO RETAINED EARNINGS AT BEGINNING OF YEAR

Adjustments to the beginning retained earnings, as shown on Statement B, are detailed as follows:

Retained earnings at beginning of year, July 1, 1997	(8261,621)
Deductions:	
Capital lease receivable overstatement	(437)
Adjustment to property, plant, and equipment	<u>(166,617)</u>
Retained earnings at beginning of year, as restated	<u>(3326,635)</u>

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

9. UNAMORTIZED BOND ISSUANCE COSTS

Unamortized bond issuance costs include legal fees and underwriting fees associated with the original \$8,000,000 revenue bonds. These costs will be amortized over the life of the bonds using the straight-line method. The original issuance costs of \$300,044 is reflected on Statement A at \$35,304, net of accumulated amortization totaling \$30,740. The bond issuance costs amortized in 1998 were \$12,191.

10. LEASE-PURCHASE AGREEMENT

The authority has entered into a lease-purchase agreement with the Department of Agriculture and Forestry for the acquisition of the office building acquired by the authority as a result of the issuance of its revenue bonds. Under the terms of the agreement, the Department of Agriculture and Forestry took possession of the office building on August 28, 1988. The term of the lease-purchase agreement is from August 28, 1988, to October 30, 2002, or such earlier time as the bonds have been paid or provision for their payment has been made in accordance with the agreement.

In addition to the base rental payments to cover debt service on the bonds and related bond expenses, the Department of Agriculture and Forestry agrees to pay all taxes, assessments, and insurance premiums. The department also pays an additional monthly rental to cover maintenance and operation of the office building during the term of the agreement. The rental payments are to be made from monies appropriated to the department for that purpose. Under the direction of the bond trustee, the Department of Agriculture and Forestry wires the payments to the trustee who pays the bond principal and interest as they become due. The lease-purchase agreement is dependent on the appropriation to the department and shall terminate, at the option of the authority, in the event no funds or insufficient funds are appropriated in any fiscal year.

On April 30, 1990, the authority entered into a cooperative endeavor agreement with Louisiana State University and A&M College and Department of Agriculture and Forestry for the purpose of constructing, furnishing, equipping, and maintaining a building on the Agricultural Center's Baton Rouge campus of Louisiana State University and A&M College to house the feed, fertilizer, and pesticide testing laboratories, administrative offices, and related support facilities for the university and the department. According to the agreement, the university will lease the real property to the authority, who will construct, furnish, and equip a laboratory building. The authority will sublease the land and the building to the department for its use. The term of the cooperative endeavor agreement is from April 30, 1990, to April 29, 2015. At the expiration of the agreement, the ownership of the building shall transfer to the university without any compensation or payment to the authority. On July 1, 1992, a sublease agreement was entered into between the authority and the department to provide a source of payment for the \$3,180,000 revenue bonds issued to complete construction of the laboratory building. The term of the sublease agreement is from July 1, 1992, to January 15, 2002, or such earlier time as the

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (continued)

bonds have been paid or provision for their payment has been made in accordance with the agreement.

In addition to the basic rental payments to cover debt service on the bonds and related bond expenses, the Department of Agriculture and Forestry agrees to pay trustee fees and expenses of the authority as they relate to the project. The university shall keep the non-structural portion of the building in good repair and maintenance. The rental payments are to be made from monies appropriated to the department for that purpose. Under the direction of the bond trustee, the department wills the payments to the trustee who pays the bond principal and interest, as they become due. The lease-purchase agreement is dependent on the appropriation to the department, and shall terminate, at the option of the authority, in the event no funds or insufficient funds are appropriated in any fiscal year.

A summary of changes in capital lease receivable is as follows:

Capital lease receivable at June 30, 1987	\$4,370,200
Reduction to capital lease receivable by payments received in 1988	(2,330,947)
Reduction to capital lease receivable by interest savings realized by early lease payments	<u>(208,762)</u>
Capital leases receivable at June 30, 1988	<u>\$1,822,500</u>

The portion of the receivable applicable to future years is included in deferred revenue on Statement A.

11. PDR DHM

Per diem for the authority was paid by the Department of Agriculture and Forestry. Per diem for the fiscal year ended June 30, 1988, is \$340. The schedule of per diem payments is included in the audit report on the Department of Agriculture and Forestry.

12. OTHER PURCHASED SERVICES

As shown on Statement A, the authority reimbursed the department for a portion of certain employees' salaries amounting to \$380,475. These departmental employees perform administration, accounting, and maintenance duties for the authority.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

13. LITIGATION

During fiscal year 1995, the authority and the general contractor for the agricultural chemistry building on the Agriculture Center's Baton Rouge campus of Louisiana State University and A&M College entered into arbitration for the final contract payment. The contractor was seeking payment of final contract balances plus extra costs incurred because of an alleged failure by the authority to timely award the building. The authority did not accept the building because the contractor allegedly failed to comply with the contract documents and allegedly failed to complete the project by the completion date. On May 13, 1995, in a companion suit, the authority and the Department of Agriculture and Forestry sued the general contractor's bonding company as surety due to the contractor's alleged failure to complete the project according to the terms and conditions of the construction contract as well as the contractor's alleged failure to pay certain subcontractors for work performed. The arbitration was concluded in December 1995, and the authority was awarded \$883,190. On April 12, 1996, confirmation of the arbitration award was applied for in the Nineteenth Judicial District Court. A motion was made to transfer the matter to the judicial division handling the companion suit. The contractor filed an appeal to the arbitration decision. On August 31, 1996, the court confirmed the arbitration award. It is expected that the contractor will appeal the confirmation of the award. The companion suit filed against the general contractor's bonding company is currently being continued pending opposing motions filed by each party.

14. AGRICULTURAL LOAN PROGRAM

The authority, as authorized by R.S. 3:389, began issuing bonds in December 1983, to provide financing for agricultural loans, through the purchase or guarantee of existing loans, or negotiation on new loans, and the establishment of reserves for the bond issues. At June 30, 1996, the authority has issued a total of \$341,023,550 in bonds, including two bond issues totaling \$300,000,000 that are currently in default, and the outstanding balance on all bond issues at June 30, 1996, is \$87,312,595. The amounts associated with these bond issues are not included within the accompanying financial statements as the amounts are payable solely from the proceeds of the loans pledged. The bonds do not constitute an indebtedness of the authority or of the State of Louisiana.

Both of the 1988 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and then certain agricultural loans permitted under the financing program. Executive Life Insurance Company was placed into conservatorship by the Commissioner of Insurance from the State of California on April 11, 1991. As a result, both of the 1988 series bonds have defaulted.

Trustees of the two 1988 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. During the period of April 11, 1991, through May 15, 1997, investors have received interim payments, including interest, totaling \$142,351,706 and \$141,826,500 for the LAFA I and LAFA II bonds, respectively. As a result of this modified plan,

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
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Notes to the Financial Statements (Continued)

court ordered trust administration costs of \$4,526,500 for LAFA I and \$4,928,580 for LAFA II were incurred and distributions totaling \$275,075,387 were made to bondholders on January 20, 1994; May 20, 1994; April 12, 1995; November 20, 1995; April 24, 1996; and May 10, 1997. This amount represents principal of \$100,643,429 and interest of \$34,831,556 for LAFA I bondholders and principal of \$100,775,986 and interest of \$38,824,915 for LAFA II bondholders. Distributions under the modified plan of rehabilitation for Executive Life Insurance Company can continue until the conservator of the distributions declares the distributions are complete or the modified plan has expired.

15. SUBSEQUENT EVENTS

Boll Weevil Eradication

Act 10 of the 1996 Regular Session appropriated the first installment of the state's participation in a five-year Boll Weevil Eradication Program, subject to the Louisiana farmers' approval of the program. The farmers are required to contribute 50% of the costs of the program. Through a referendum in September 1996, the Louisiana farmers voted for and approved the program, which levies \$15.60 per acre upon each acre of cotton in the state to be used as the farmers' 50% share. This levy will be in place for the five years of the program, and will be payable at the time the farmers make their Certification of Cotton Acreage at the Federal Farm Service Agency.

The authority will be responsible for insuring any debt necessary to fund the state's share of the program. The state's 50% share of the program will be \$50,000,000, funded with an \$8,000,000 annual appropriation to the Department of Agriculture and Forestry to repay debt incurred by the authority.

In August 1996, the Joint Legislative Committee on the Budget approved a plan submitted by the Commissioner of Agriculture and Forestry for boll weevil eradication. To implement the plan, the authority entered into a cooperative endeavor agreement with the Office of the Governor, the Division of Administration, the Department of Agriculture and Forestry, and the Louisiana Boll Weevil Eradication Commission.

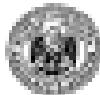
Intermodal Sugar Transportation Project

The Capital Outlay Act of 1996, Act 29 of the Louisiana Legislature, authorized a \$3,800,000 appropriation to the Department of Transportation and Development for the project titled "Intermodal Infrastructure, Planning and Construction (Statewide)," payable in the amount of \$1,000,000 from the State General Fund and \$2,800,000 from general obligation bonds.

Act 29 provides that the funds appropriated for the project in the amount of \$3,800,000 shall be transferred to Louisiana Agricultural Finance Authority for the purpose of funding infrastructure purchases, acquisitions, and construction of a rail intermodal system to expedite the hauling of sugar cane by rail in Louisiana beginning in the fall of 1996.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws, regulations, and contracts and on internal control as required by Government Auditing Standards, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF
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October 29, 1998

Brevet on Compliance and an Internal Control Over Financial Reporting-Based Audit of the Financial Statements Presented in Accordance With Government Auditing Standards

**LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the general purpose financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 29, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Agricultural Finance Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Agricultural Finance Authority's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

EXHIBIT A

LEGISLATIVE AUDITOR

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Compliance and Internal Control Report
October 28, 1990
Page 2

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the authority and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Sincerely submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

CC:BDL/HPE/Pd

DATR